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MIDDLE EAST – AFRICA – SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Ethiopia

Fighting in Eritrea Less Intense

Fighting in Eritrea Province between government forces and insurgents, now entering its third week, has been light in recent days, but the tempo of activity could quickly increase. Although government forces retain control of urban areas, they have been unable to prevent rebel raids on the provincial capital of Asmara or to dislodge the rebels from positions along the roads leading into the city. Only a few government vehicles have managed to enter Asmara, and government forces continue to rely mainly on airlifts for resupply.

The insurgents attacked two tracts of Kagnew Station, the US communications complex in Asmara, early on February 8. Rockets were fired at fuel storage tanks; small arms fire apparently aimed at oil barrels struck trailers occupied by US personnel, but caused no casualties. Two days later, the rebels again fired heavy automatic weapons and rockets into Asmara. For the most part they were directed at Ethiopian military facilities, but some rounds were aimed at the portion of the Kagnew facility, occupied by both the US naval communications unit and the Ethiopian army.

Kagnew's fuel and generators have apparently become prime targets for the rebels. Insurgent fire has already knocked out the main power station north of Asmara.

Government forces are facing supply shortages, but they apparently do not have major logistic problems at this time. Some units in areas north and south of Asmara reportedly continue to experience shortages of ammunition, fuel, and food. The air force resumed attacks on rebel positions early in the week after a standdown of about three days, probably because of a lack of fuel.

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The performance of the army improved this week with the arrival in Eritrea of the army commander to take personal charge of operations. Troops are showing more fire discipline; their indiscriminate shooting last week rapidly depleted ammunition supplies. Government forces still have serious morale and leadership problems, and there is serious disaffection in the air force. Many pilots and air force technicians are Eritreans or married to Eritreans. A large number have defected, refused to engage in combat operations, or instituted maintenance slow-downs.

The army has suffered about 1,000 casualties, including about 75 killed. Rebel losses are believed to be much lower. Civilian casualties may exceed 5,000.

President Numayri of neighboring Sudan appealed to the rebels and the Ethiopian ruling military council on February 8 for an immediate cease-fire and the beginning of negotiations. Neither side seems willing to accept his proposal. Spokesmen for one of the two main rebel factions have rejected his appeal, mainly because it does not make the principle of Eritrean independence--the major rebel demand--a pre-condition for cease-fire. The council has also reacted cooly.

The rebels reportedly are planning terrorist acts in Addis Ababa during the meeting there of the council of ministers of the Organization of African Unity from February 13 to 21. Eritrean sources claim that 200 terrorists are in the city and intend to launch violent disturbances to demonstrate to the OAU delegates that the government is unable to maintain security in its own capital. (SECRET)

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South Africa

Gold and the Economy

The continuing high price of gold is permitting South Africa to meet skyrocketing foreign exchange needs with a reduced volume of gold production and sales.

South Africans gold sales in 1974 fell by 5 percent to about 780 tons, but average prices during this year rose from $95 to over $150 an ounce and earnings jumped from $2.5 billion to almost $4 billion. The increased earnings enabled the government to help finance a 60 percent rise in imports that totaled $8 billion for the year. The cost of oil imports quadrupled to more than $1 billion, and non-oil imports rose sharply because of healthy economic growth. Increases in the prices and quantities of agricultural and mineral exports forestalled greater requirements for gold sales.

The deficit to be financed by gold sales in 1975 probably will again approach $4 billion. Although the economic growth rate is beginning to slow and can be expected to dampen import demand, non-gold exports also will stagnate or fall because of the prospect of reduced harvests and weakening demand for many other South African exports.

The decline in the grade of the ore being mined will reduce gold production this year, probably to about 700 tons. This is the result of the interaction of prices, costs, and long term depletion of the richest ore reserves. Expansion of mining and processing, stimulated by the high gold prices, will have slowed or reversed this trend by 1978.

Labor problems caused by poor working conditions, low wages, and other hardships imposed by South Africa's racial labor policy are a potentially serious threat to production. The supply of black

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migrant workers from neighboring countries, which had constituted about 75 percent of the gold mines' labor force, has fallen by one fifth since mid-1974. A number of tribal riots among foreign mineworkers and strikes have disrupted production at several mines.

In an effort to end the troubles, the mining companies have raised wages, still only $60 a month plus room and board for new workers, and have taken other steps to improve working conditions. Although these measures probably will not satisfy the workers, it seems unlikely that production will be seriously cut during the year. The recruitment of migrant workers will pick up if foreign exchange pressures induce Malawi, the largest source, to lift its ban on recruiting imposed in April 1974. South Africa eventually hopes to reduce its dependence on foreign labor by speeding mechanization of the mines and increasing the recruitment of South African black laborers.

In any case, high gold prices probably will allow South Africa to meet the 1975 foreign exchange deficit with a reduced volume of gold sales. The government has ample gold in its coffers--about 570 tons--to offset at least temporarily unforseen fluctuations in world prices, domestic production, or foreign exchanges needs. (CONFIDENTIAL)

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